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Lenovo

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2018/19 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three and six months ended September 30, 2018 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Delivered accelerated progress in business performances and in executing Intelligent Transformation strategy: Group revenue in 2QFY19 reached record high in the last 4 years, the 5th consecutive quarter of YTY growth
- Strong operational performance with profit before taxation of US$213M during the quarter, the 4th consecutive quarter of YTY improvement
- Second quarter of Intelligent Devices Group's formation: Well executed Intelligent Transformation delivered double-digit revenue growth and profit improvement
  - PCSD revenue reached US$10B mark with double-digit YTY growth for 3 consecutive quarters, and maintained industry leading PTI margin at 5%
  - Mobile business achieved major milestone with non-China business reaching operational breakeven
- Data Center business saw another quarter of hyper growth YTY in revenue driven by improved capabilities in product leadership and sales
- Intelligent Transformation spread across all business groups: Software and services revenue grew double-digit YTY and big data & vertical solutions also saw strong double digit-growth in revenue YTY

	3 months ended September 30, 2018 (unaudited) *US$'million*	6 months ended September 30, 2018 (unaudited) *US$'million*	3 months ended September 30, 2017 (unaudited) *US$'million*	6 months ended September 30, 2017 (unaudited) *US$'million*	Year-on-year change 3 months ended September 30	Year-on-year change 6 months ended September 30
Revenue	13,380	25,293	11,761	21,773	14%	16%
Gross profit	1,794	3,426	1,613	2,977	11%	15%
Gross profit margin	13.4%	13.5%	13.7%	13.7%	(0.3) pts	(0.1) pts
Operating expenses	(1,504)	(2,956)	(1,525)	(2,896)	(1)%	2%
Operating profit	290	470	88	81	230%	476%
Other non-operating expenses - net	(77)	(144)	(53)	(115)	46%	25%
Profit/(loss) before taxation	213	326	35	(34)	503%	N/A
Profit for the period	173	259	153	99	13%	161%
Profit attributable to equity holders of the Company	168	245	139	67	21%	268%
Earnings per share attributable to equity holders of the Company						
Basic	US 1.41 cents	US 2.06 cents	US 1.26 cents	US 0.61 cents	US 0.15 cents	US 1.45 cents
Diluted	US 1.40 cents	US 2.06 cents	US 1.26 cents	US 0.61 cents	US 0.14 cents	US 1.45 cents

INTERIM DIVIDEND

The Board has declared an interim dividend of HK6.0 cents (2017/18: HK6.0 cents) per share for the six months ended September 30, 2018, absorbing an aggregate amount of approximately HK$720.9 million (approximately US$92.1 million) (2017/18: approximately HK$666.5 million (approximately US$85.4 million)), to shareholders whose names appear on the register of members of the Company on Friday, November 23, 2018. The interim dividend will be paid on Friday, November 30, 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, November 23, 2018, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, November 22, 2018. Shares of the Company will be traded ex-dividend as from Wednesday, November 21, 2018.

BUSINESS REVIEW AND OUTLOOK

Business Review

During the six months ended September 30, 2018, Lenovo (the Group) achieved record high revenue and improvement in profit before taxation year-on-year. This performance included the highest quarterly revenue in almost four years for the quarter ended September 30, 2018. The accelerated improvement in both revenue and profitability was driven by disciplined execution of Lenovo's "Intelligent Transformation" turnaround strategy. Decisive steps to restructure businesses and create new efficiencies taken in prior quarters have yielded significant growth and improved market strength across all Lenovo's businesses during the first half of the fiscal year. The diligent execution has created strong momentum, leading to Lenovo entering a sustainable growth phase.

The Intelligent Devices Group (IDG) composed of both the Group's PCSD and Mobile businesses, delivered another strong performance, while also building new capabilities in Smart IoT. IDG has realized synergies from its shared platform and resources, and achieved double-digit revenue growth with significant profit improvement year-on-year. Its PCSD business grew strongly with double-digit growth in revenue while maintaining its industry-leading profitability. The PC business returned to the top spot among global PC vendors, according to IDC, in fiscal quarter two. It is now the undisputed number one PC vendor according to both IDC and Gartner. The Mobile business outside of China and the Motorola brand globally achieved a significant milestone in attaining operational breakeven in fiscal quarter two with its core markets continuing to grow in revenue.

The Data Center Group (DCG) continued its hyper-growth driven by its product leadership while continuing to build next-generation capabilities to drive future growth. In the first half of the fiscal year, DCG delivered the strongest growth since the System x acquisition with a significant operating loss reduction.

As part of the "Intelligent Transformation" of Lenovo, the Group succeeded in growing vertical solutions and services. One part of this transformation, the Group achieved double-digit growth year-on-year in Software & Services revenue, IDG services booking revenue and DCG Software & Services revenue. In particular it saw breakthrough growth in Device-as-a-Service (DaaS) with a key win in a global financial organization during the first half of the fiscal year. The Group's big data and vertical solutions businesses also saw double-digit growth in revenue year-on-year. In addition, E-commerce business grew by double-digits in revenue for the second consecutive quarter. In China, the Group also established a Smart IoT User Devices and Services (UDS) platform to connect its users, devices and cloud services, and saw a strong double-digit quarter-to-quarter growth in monthly average users. During the six months under review, the Group also launched several new Smart Devices in Consumer Smart IoT including Mirage Solo, Mirage Camera with Daydream, Smart Display with Google, and in Commercial IoT including Smart Office (Hub 500). These smart device launches demonstrated the Group's innovation and technology leadership.

At its Tech Life event in August 2018, the Group unveiled a series of new Smart Home solutions, including Smart Plug, Smart Camera and Smart Bulb, offering a simple, one-stop shop for the smart home. Further, in September 2018, Lenovo successfully held the Transform and Tech World events to showcase its progress in becoming the leader and enabler of the intelligent era. These events were well received by key partners and customers, as well as attracting significant media interest as Lenovo demonstrated its progress in driving smart IoT solutions, smart infrastructure and smart vertical solutions.

For the six months ended September 30, 2018, the Group's consolidated revenue grew 16 percent year-on-year to US$25,293 million. The Group's gross profit was US$3,426 million, representing an increase of 15 percent year-on-year. Gross margin decreased by 0.13 percentage points year-on-year to 13.5 percent, due to changes in DCG's product mix. Operating expenses increased 2 percent year-on-year to US$2,956 million, but the expense-to-revenue ratio was 11.7 percent, an improvement of 1.6 percentage points year-on-year, thanks to the expense savings from MBG. The Group's profit before taxation was US$326 million for the first half of fiscal year under review, against a US$34 million loss recorded in the previous year. The Group recorded profit attributable to equity holders of US$245 million against US$67 million profit recorded in the previous year.

Performance of Product Business Groups

During the six months ended September 30, 2018, Lenovo's IDG achieved strong double-digit revenue growth year-on-year while improving profitability thanks to the strength of our PCSD business. In addition, the MBG business outside of China and the Motorola brand globally reached operational breakeven in fiscal quarter two. The transformation in DCG continued to show positive momentum.

Intelligent Devices Group

For the six months ended September 30, 2018, IDG revenue was US$22,120 million, representing approximately 87 percent of the Group's total revenue and an increase of 12 percent year-on-year, driven by the strong revenue performance from the PCSD business. IDG recorded a pre-tax profit of US$794 million, up 143 percent year-on-year, thanks to strong profit improvement from PCSD and MBG's loss reduction during the six months under review. Pre-tax profit margin of IDG was 3.6 percent, up 1.9 percentage points year-on-year.

Intelligent Devices Group - PC and Smart Device Business

During the six months under review, the global PC market continued to show signs of stabilization as the commercial refresh continued and consumer demand stabilized. The Group continued its strategy of prioritizing profitability and driving premium-to-market revenue growth in its PC business. Through strong execution, the Group was the fastest growing PC vendor for the second consecutive quarter in fiscal quarter two; regained the number one position in worldwide PC shipments and remained the leader in the PC-plus-tablet market, according to the latest IDC reports. PCSD achieved strong revenue growth of 18 percent year-on-year while delivering industry leading 5 percent pre-tax profit margin in the first half of the fiscal year. The Group continued to gain share in shipments and revenue in fiscal quarter two in commercial PC, which accounted for 63 percent of its PC unit mix. This is higher than the industry market mix of 55 percent in commercial PC, according to industry estimates. The Group continued to gain share in the Workstation segment, growing revenue at 27 percent year-on-year in fiscal quarter two. In consumer PC, the Group also continued to gain share in fiscal quarter two and focused on premium segments, including Thin & Light, Visuals, and Gaming PC segments, each achieving strong double-digit revenue growth year-on-year in fiscal quarter two.

In driving its Intelligent Transformation, the Group has launched several new smart devices like Smart Display with Google Home Hub. In fiscal quarter two, the DaaS business saw booking revenue grow 1.5 times quarter-to-quarter as the dedicated sales team started to gain traction. The Group has also deployed premium services across 44 countries as of fiscal quarter two end. In addition, Lenovo has partnered with several companies to launch new retail stores in China since the beginning of 2018 to provide over 400 different IoT smart products. These new retail stores use AI technologies to provide retail efficiency and prompt service delivery, significantly enhancing customer satisfaction.

In fiscal quarter two, the segment known as "Others" that included consumer electronic related

businesses was reclassified to PCSD retrospectively to align with the corporate strategy.

For the six months ended September 30, 2018, revenue of the Group's PCSD business was US$18,873 million, an increase of 18 percent year-on-year and representing approximately 74 percent of the Group's total revenue. The business recorded a pre-tax profit of US$940 million, up 42 percent year-on-year, thanks to products mix improvement. Pre-tax profit margin was 5.0 percent, up 0.8 percentage point year-on-year.

Intelligent Devices Group - Mobile Business

In fiscal quarter two, the Mobile business outside of China and the Motorola brand globally achieved a key milestone in reaching operational breakeven, as the Group continued to execute its strategy to reduce expense, simplify its portfolio and focus on core markets in Latin and North America. The Group continued to grow in revenue in Latin America despite a volatile currency environment and maintained its strong number two market position during the six month period. Shipments in North America continued to see significant growth of 65 percent year-on-year driven by mainstream models including Moto G6 and E5, which were launched successfully along with carrier expansion during the six month period. In addition, Lenovo showcased its innovation with the launch of Moto z3, the world's first phone that is upgradable to 5G with 5G moto mod™.

In the first half of the fiscal year, overall shipments declined 20 percent year-on-year, as the Group continued to execute its simplification strategy and focus on selected markets. Currency fluctuations also affected demand, especially in emerging markets. In China, the Group continued to improve its brand and saw positive momentum while narrowing losses significantly.

Mobile business revenue was US$3,247 million, representing approximately 13 percent of the Group's total revenue, a decrease of 15 percent year-on-year for the six months ended September 30, 2018. The Group's actions in reducing expenses were on track and resulted in an improved expense to revenue ratio. Reported loss before taxation for the six months under review was US$146 million a significant improvement from the US$337 million loss a year prior.

Data Center Business Group (DCG)

The Data Center Group continued to build its capabilities in product leadership and sales, and as such it saw another quarter of hyper growth and continued profitability improvement in fiscal quarter two. This fiscal quarter two is DCG's fourth consecutive quarter of double-digit revenue growth and pre-tax margin improvement year-on-year. Services deferred revenue continued to grow year-on-year for the seventh consecutive quarter as the Group drove smart solutions for customers. The Group's previous transformation investments in building sales capabilities, strengthening the channel and product solutions, along with the right business models, continued to create strong momentum in the business. Lenovo moved one position up and became the worldwide number three server vendor in fiscal quarter one according to IDC's latest release.

The Group continued its triple-digit growth in its Hyperscale business thanks to its investments in improving in-house design and manufacturing capabilities, as well as improving its customer mix. According to IDC, Lenovo was the fastest growing vendor and jumped to worldwide number four in Cloud Infrastructure. In the Software Defined Infrastructure segment, the Group again saw triple-digit revenue growth with margin improvement during fiscal quarter two. The Group continued to be Nutanix's fastest growing partner and also entered into an exclusive OEM relationship with Cloudistics for next generation composable cloud solutions. In the High Performance Computing (HPC) segment, the Group became the worldwide number one player in the HPC TOP500 List in fiscal quarter one. In the Data Center Infrastructure segment, the Group extended its leadership as number one in x86 server performance with 121 current world record workloads as of September 2018. And in Flash Arrays Storage, Lenovo continued to significantly outpace the market with triple-digit year-on-year growth in fiscal quarter two. Lenovo also announced a global strategic partnership with NetApp, including a new joint venture in China, enabling Lenovo to cover nearly the entire storage and data management market now. As such, Lenovo announced the largest storage portfolio in its history at the Transform event in September 2018.

For the six months ended September 30, 2018, revenue of the Data Center business was US$3,173 million, increasing 63 percent year-on-year and representing approximately 13 percent of the Group's total revenue. The loss from the Data Center business significantly narrowed year-on-year, owing to the strong execution of the transformation strategy. The Group recorded a reported loss before taxation of US$123 million in the first half of the fiscal year, a significant improvement from the US$275 million loss same period last fiscal year.

Globally Balanced Business

As a global company, Lenovo continues to perform well in the more than 160 countries in which it does business. The performance of each geography includes a combination of our IDG and DCG businesses.

China

China accounted for 25 percent of the Group's total revenue in the first half of the fiscal year. Under IDG, the PCSD business continued to improve the product mix and drive premium revenue growth to protect profitability. The Group continued its efforts in enhancing its smartphone brand in China and launched new models during the six months with positive momentum, while narrowing its losses.

In the Data Center business, the Group's transformation actions led to double digit year-on-year revenue growth and improved profitability in the first half of the fiscal year.

Americas (AG)

Americas accounted for 32 percent of the Group's total revenue in the first half of the fiscal year. Under IDG, the PCSD revenue outperformed the market while improving profitability on a better product mix. The Group's Moto brand smartphones continued to show solid momentum in Latin America while mitigating the impact from currency fluctuation during the six months period. In North America, the Group continued to see strong smartphone shipment growth of 65 percent year-on-year during the six month period.

The Group's Data Center business continued to show positive momentum as a result of its transformation actions. Notably, North America DCG saw revenue year-on-year growth for the sixth consecutive quarter.

Asia Pacific (AP)

Asia Pacific accounted for 19 percent of the Group's total revenue in the first half of fiscal year. Under IDG, the revenue of PCSD grew at a high double-digit rate year-on-year. Its smartphone business in the region continued to face fierce competition during the six months under review, hence the Group adjusted its strategy to focus on margin protection. As such, the Group saw smartphone shipments decline in the first half of the fiscal year.

The Group's transformation of its Data Center business continued to bring double-digit revenue growth while reducing losses year-on-year during the six months under review.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 24 percent of the Group's total revenue in the first half of the fiscal year. Under IDG, the PCSD business in EMEA delivered moderate revenue growth to protect margin. In its smartphone business, the Group adjusted its strategy to focus on the mature markets of EMEA in order to protect profitability. As such, smartphone shipments in the region saw a decline during the six months under review.

The Group's Data Center business saw strong momentum in the region with double-digit revenue growth and loss reduction year-on-year during the six months under review. In fiscal quarter two, EMEA DCG saw revenue growth year-on-year for the sixth consecutive quarter.

Outlook

Looking ahead, the macro environment remains volatile due to ongoing geopolitical tensions. However, Lenovo is a global company with worldwide manufacturing capabilities that is world renowned for its leading supply chain and is experienced managing the impact of policy changes. The Group is confident it can still execute its intelligent transformation strategy and drive for long-term sustainable profitable growth.

Lenovo strives to be the leader and enabler in the intelligent transformation era. The strong performance of IDG in the first half of the fiscal year is a testament to its capabilities in branding, operations and supply chain. It will leverage these existing strengths as well as add new AI capabilities to develop Smart Internet of Things (IoT) offerings. Moreover, the Group aims to offer customers total solutions and increasing attach options in services and software that are recurring and high-margin. The Group remains confident in its core PC business, and aims to grow at a premium to the market in revenue without compromising profitability. Lenovo will leverage industry consolidation opportunities, and drive growth in high-growth segments such as gaming PCs, Thin & Light, Visuals, and workstations. The Group's iconic commercial brand, ThinkPad, will continue to drive growth in the ongoing commercial PC refresh.

In the smartphone market, Lenovo has also announced the world's first 5G-upgradable phone with its 5G moto mod to its new moto z3 phone. The Group will continue to strengthen its core markets in Latin America and North America, focus on profitable markets, and continue to fine tune its strategy in selective key emerging markets like India and China. The Group's long-term vision for the IDG is to build an ecosystem around its devices and generate a healthy business model that comprises of a mixture of hardware, software and services revenues.

In the Data Center business, the Group will continue its transformation into a world-class, next-generation IT solutions provider by driving premium to market growth and to building technology leadership in the Software Defined segment and in artificial intelligence. In Hyperscale, the Group continues to leverage its world-class in-house design and manufacturing capabilities, and bring compelling offerings to global hyperscalers. In storage and networking, Lenovo will leverage its strategic partnerships, including NetApp in storage. Further, in order to offer more comprehensive customer solutions, the Group will increase the services attach options. The Group now has the most compelling ThinkSystem and ThinkAgile products, the largest storage portfolio in its history and the industry's best product reliability, all of which provide the foundation for sustainable, profitable growth.

The Group will also continue its Intelligent Transformation in driving Software & Services revenue, customer engagement and accelerating Device + Cloud and Infrastructure + Cloud expansion. It will continue to invest in AI, IoT, Big Data and VR/AR with sizable investments over time. With that, the Group is building capabilities in Device + Cloud and Infrastructure + Cloud in order to capture the growth in the smart IoT era. The Group has expanded its ecosystem across large enterprises as well as small and medium business customers with its Big Data and Lenovo Connect services, while also penetrating into consumer segments with its smart IoT platform to capture more opportunities in the IoT era.

Looking forward, Lenovo has a clear vision to drive sustainable, profitable growth. Through strong execution, the Group remains confident it will continue to build leading positions in every business the Group enters and drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Results for the six months ended September 30, 2018

	6 months ended September 30, 2018 (unaudited) ***US$'million***	6 months ended September 30, 2017 (unaudited) *US$'million*	Year-on-year change
Revenue	**25,293**	21,773	16%
Gross profit	**3,426**	2,977	15%
Gross profit margin	**13.5%**	13.7%	(0.1) pts
Operating expenses	**(2,956)**	(2,896)	2%
Operating profit	**470**	81	476%
Other non-operating expenses – net	**(144)**	(115)	25%
Profit/(loss) before taxation	**326**	(34)	N/A
Profit for the period	**259**	99	161%
Profit attributable to equity holders of the Company	**245**	67	268%
Earnings per share attributable to equity holders of the Company			
Basic	**US 2.06 cents**	US 0.61 cents	US 1.45 cents
Diluted	**US 2.06 cents**	US 0.61 cents	US 1.45 cents

For the six months ended September 30, 2018, the Group achieved total sales of approximately US$25,293 million. Profit attributable to equity holders for the period was approximately US$245 million, representing an increase of US$178 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.1 point down from 13.7 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US2.06 cents, representing an increase of US1.45 cents as compared with the corresponding period of last year.

Further analysis of sales by segment are set out in Business Review and Outlook.

Operating expenses analyzed by function for the six months ended September 30, 2018 and 2017 are as follows:

	6 months ended September 30, 2018 ***US$'000***	6 months ended September 30, 2017 *US$'000*
Other income – net	**-**	15
Selling and distribution expenses	**(1,308,943)**	(1,460,671)
Administrative expenses	**(1,000,134)**	(847,837)
Research and development expenses	**(622,236)**	(602,498)
Other operating (expenses)/income – net	**(24,543)**	15,427
	(2,955,856)	(2,895,564)

Operating expenses for the period increased by 2 percent as compared with the corresponding period of last year. During the period, employee benefit costs increased by US$161 million mainly due to the higher bonus accrual as a result of the outperformance this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year. The Group has reduced advertising and promotional expenses by US$120 million compared with the corresponding period of last year, and recorded gains on fair valuation and disposal of certain financial assets of US$72 million and US$33 million respectively. The impact of currency fluctuations during the period presented a challenge, the Group recording a net exchange loss of US$59 million (2017/18: US$13 million) for the period. Key expenses by nature comprise:

	6 months ended September 30, 2018 *US$'000*	6 months ended September 30, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(85,632)**	(73,718)
Amortization of intangible assets	**(228,545)**	(211,511)
Employee benefit costs, including	**(1,681,729)**	(1,520,555)
-long-term incentive awards	***(99,626)***	*(98,340)*
Rental expenses under operating leases	**(63,311)**	(67,084)
Net foreign exchange loss	**(59,320)**	(13,348)
Advertising and promotional expenses	**(358,617)**	(478,342)
Loss on disposal of property, plant and equipment	**(2,456)**	(4,560)
Fair value gain on financial assets at fair value through profit or loss	**71,511**	-
Gain on disposal of financial assets at fair value through profit or loss	**32,896**	-
Dilution gain on interest in an associate	**18,121**	-
Others	**(598,774)**	(526,446)
	(2,955,856)	(2,895,564)

Other non-operating expenses (net) for the six months ended September 30, 2018 and 2017 comprise:

	6 months ended September 30, 2018 *US$'000*	6 months ended September 30, 2017 *US$'000*
Finance income	**11,474**	17,659
Finance costs	**(153,580)**	(131,574)
Share of losses of associates and joint ventures	**(1,721)**	(1,570)
	(143,827)	(115,485)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 17 percent as compared with the corresponding period of last year. The change is a combined effect of the increase in interest expense on bank loans of US$26 million and factoring costs of US$9 million, partly offset by the decrease in interest on the promissory note issued to Google Inc. of US$12 million.

Share of losses of associates and joint ventures represents operating losses arising from principal business activities of respective associates and joint ventures.

The Group adopts segments by business group as the reporting format. Segments by business group comprise Intelligent Devices Group ("IDG") and Data Center Group ("DCG"). Segment revenue and adjusted pre-tax income/(loss) for reportable segments are as follows:

	6 months ended September 30, 2018		6 months ended September 30, 2017	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**22,119,735**	**793,992**	19,826,573	326,754
DCG	**3,172,799**	**(123,457)**	1,946,529	(275,335)
Segment total	**25,292,534**	**670,535**	21,773,102	51,419
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(219,575)**		(17,428)
Depreciation and amortization		**(62,972)**		(45,192)
Finance income		**1,285**		3,246
Finance costs		**(60,792)**		(26,376)
Share of losses of associates and joint ventures		**(1,721)**		(1,570)
(Loss)/gain on disposal of property, plant and equipment		**(667)**		1,986
Consolidated profit/(loss) before taxation		**326,093**		(33,915)

Headquarters and corporate (expenses)/income in the current period comprise the gains on fair valuation and disposal of certain financial assets totaling US$105 million (2017/18: nil), dilution gain of interest in an associate of US$18 million (2017/18: nil), and various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$266 million (2017/18: US$17 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs increased by US$117 million which is mainly due to higher bonus accrual of US$86 million (comprising breakthrough bonus accrual of US$37 million in anticipation of outperformance) made as a result of the outperformance for this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year, and the increase of severance and related costs by US$21 million. The Group also recorded a net exchange loss of US$51 million whereas a net exchange gain of US$9 million was recognized in the corresponding period of last year as a result of the balance sheet hedges, and central research and technology expenses of US$34 million which were not allocated to a business group (2017/2018: nil).

Moreover, the Group recognized fair value loss on bonus warrants of US$7 million during the current period, and certain additional one-time charges, in connection with the execution of the resource actions announced in last year, at the corporate level including the disposal of certain inventories as a result of product portfolio simplification of US$46 million, and onerous lease contracts and claims of US$24 million.

Second Quarter 2018/19 compared to Second Quarter 2017/18

	3 months ended September 30, 2018 (unaudited) *US$'million*	3 months ended September 30, 2017 (unaudited) *US$'million*	Year-on-year change
Revenue	**13,380**	11,761	14%
Gross profit	**1,794**	1,613	11%
Gross profit margin	**13.4%**	13.7%	(0.3) pts
Operating expenses	**(1,504)**	(1,525)	(1)%
Operating profit	**290**	88	230%
Other non-operating expenses – net	**(77)**	(53)	46%
Profit before taxation	**213**	35	503%
Profit for the period	**173**	153	13%
Profit attributable to equity holders of the Company	**168**	139	21%
Earnings per share attributable to equity holders of the Company			
Basic	**US 1.41 cents**	US 1.26 cents	US 0.15 cents
Diluted	**US 1.40 cents**	US 1.26 cents	US 0.14 cents

For the three months ended September 30, 2018, the Group achieved total sales of approximately US$13,380 million. Profit attributable to equity holders for the period was approximately US$168 million, representing an increase of US$29 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.3 points down from the 13.7 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US1.41 cents and US1.40 cents respectively, representing an increase of US0.15 cents and US0.14 cents as compared with the corresponding period of last year.

Operating expenses analyzed by function for the three months ended September 30, 2018 and 2017 are as follows:

	3 months ended September 30, 2018 *US$'000*	3 months ended September 30, 2017 *US$'000*
Other income – net	**-**	15
Selling and distribution expenses	**(654,739)**	(795,644)
Administrative expenses	**(514,955)**	(387,309)
Research and development expenses	**(312,341)**	(310,933)
Other operating expenses – net	**(22,522)**	(30,968)
	(1,504,557)	(1,524,839)

Operating expenses for the period decreased by 1 percent as compared with the corresponding period of last year. During the period, employee benefit costs increased by US$52 million mainly due to the higher bonus accrual as a result of the outperformance this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year. The Group has reduced advertising and promotional expenses by US$75 million compared with the corresponding period of last year, and recorded gains on fair valuation and disposal of certain financial assets of US$42 million and US$1 million respectively. The impact of currency fluctuations during the period presented a challenge, the Group recording a net exchange loss of US$36 million (2017/18: US$16 million) for the period. Key expenses by nature comprise:

	3 months ended September 30, 2018 *US$'000*	3 months ended September 30, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(48,654)**	(35,496)
Amortization of intangible assets	**(117,141)**	(107,503)
Employee benefit costs, including	**(814,471)**	(762,034)
- *long-term incentive awards*	***(52,811)***	*(51,099)*
Rental expenses under operating leases	**(31,725)**	(32,472)
Net foreign exchange loss	**(36,204)**	(16,341)
Advertising and promotional expenses	**(190,378)**	(265,448)
Loss on disposal of property, plant and equipment	**(1,523)**	(472)
Fair value gain on financial assets at fair value through profit or loss	**42,448**	-
Gain on disposal of financial assets at fair value through profit or loss	**766**	-
Dilution gain on interest in an associate	**18,121**	-
Others	**(325,796)**	(305,073)
	(1,504,557)	(1,524,839)

Other non-operating expenses (net) for the three months ended September 30, 2018 and 2017 comprise:

	3 months ended September 30, 2018 *US$'000*	3 months ended September 30, 2017 *US$'000*
Finance income	**6,176**	8,471
Finance costs	**(81,732)**	(59,530)
Share of losses of associates and joint ventures	**(694)**	(1,277)
	(76,250)	(52,336)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 37 percent as compared with the corresponding period of last year. This is mainly attributable to the increase in interest expense on bank loans of US$12 million and factoring costs of US$11 million.

Share of losses of associates and joint ventures represents operating losses arising from principal business activities of respective associates and joint ventures.

The Group adopts segments by business group as the reporting format. Segments by business group comprise IDG and DCG. Segment revenue and adjusted pre-tax income/(loss) for reportable segments are as follows:

	3 months ended September 30, 2018		3 months ended September 30, 2017	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**11,835,883**	**466,144**	10,784,994	213,139
DCG	**1,543,926**	**(60,459)**	975,894	(130,836)
Segment total	**13,379,809**	**405,685**	11,760,888	82,303
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(125,108)**		(14,955)
Depreciation and amortization		**(37,428)**		(23,113)
Finance income		**445**		1,417
Finance costs		**(28,718)**		(9,065)
Share of losses of associates and joint ventures		**(694)**		(1,277)
(Loss)/gain on disposal of property, plant and equipment		**(885)**		37
Consolidated profit/(loss) before taxation		**213,297**		35,347

Headquarters and corporate (expenses)/income in the current period comprise the gains on fair valuation and disposal of certain financial assets totaling US$43 million (2017/18: nil), dilution gain of interest in an associate of US$18 million (2017/18: nil), and various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$129 million (2017/18: US$15 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs increased by US$45 million which is mainly due to higher bonus accrual of US$36 million (comprising breakthrough bonus accrual of US$20 million in anticipation of outperformance) made as a result of the outperformance for this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year, and the increase of severance and related costs by US$3 million. The Group also recorded a net exchange loss of US$25 million whereas a net exchange loss of US$3 million was recognized in the corresponding period of last year as a result of the balance sheet hedges, and central research and technology expenses of US$18 million which were not allocated to a business group (2017/18: nil).

Moreover, the Group recognized fair value loss on bonus warrants of US$7 million during the current period, and certain additional one-time charges, in connection with the execution of the resource actions announced in last year, at the corporate level including the disposal of certain inventories as a result of product portfolio simplification of US$39 million, and onerous lease contracts and claims of US$11 million.

Capital Expenditure

The Group incurred capital expenditure of US$276 million (2017/18: US$341 million) during the six months ended September 30, 2018, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At September 30, 2018, total assets of the Group amounted to US$30,887 million (March 31, 2018: US$28,494 million), which were financed by equity attributable to owners of the Company of US$3,021 million (March 31, 2018: US$3,519 million), perpetual securities of US$994 million (March 31, 2018: US$994 million) and other non-controlling interests (net of put option written on non-controlling interest) of -US$62 million (March 31, 2018: US$33 million), and total liabilities of US$26,934 million (March 31, 2018: US$23,948 million). At September 30, 2018, the current ratio of the Group was 0.81 (March 31, 2018: 0.80).

At September 30, 2018, bank deposits, cash and cash equivalents totaled US$2,325 million (March 31, 2018: US$1,932 million), of which 31.1 (March 31, 2018: 28.8) percent was denominated in US dollar, 42.1 (March 31, 2018: 45.6) percent in Renminbi, 8.9 (March 31, 2018: 6.1) percent in Euro, 6.4 (March 31, 2018: 7.4) percent in Japanese Yen, and 11.5 (March 31, 2018: 12.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2018, 100 (March 31, 2018: 99.6) percent of cash are bank deposits, while at March 31, 2018, 0.4 percent were investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place to meet inter-quarter funding requirements and the Group has entered into factoring arrangements in the ordinary course of business.

The Group entered into a 5-Year revolving loan facility agreement with syndicated banks for US$1,500 million on March 28, 2018. The facility was utilized to the extent of US$1,500 million as at September 30, 2018 (March 31, 2018: not utilized). The outstanding revolving loan of US$800 million utilized from another revolving loan facility as at March 31, 2018 was re-financed and prepaid in April 2018 by this 5-Year revolving loan facility.

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US$300 million. The facility was utilized to the extent of US$300 million as at September 30, 2018 (March 31, 2018: US$300 million).

On May 8, 2014, the Group completed the issuance of 5-Year US$1.5 billion notes bearing annual interest at 4.7% due in May 2019 ("2019 Note"); and on June 10, 2015, the Group completed the issuance of 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020. The proceeds have been used for general corporate purposes including working capital and acquisition activities.

On March 16, 2017, the Group completed the issuance of 5-Year US$500 million notes bearing annual interest at 3.875% due in March 2022; and completed the issuance of US$850 million perpetual securities in the form of cumulative preferred shares bearing annual dividend at 5.375%, with a performance guarantee from the Company. Moreover, on April 6, 2017, the Group completed the issuance of an additional US$150 million perpetual securities under the same terms. The proceeds were used for repayment of the outstanding amount under the promissory note issued to Google Inc. and for general corporate purposes including working capital.

On March 29, 2018, the Group completed the issuance of 5-Year US$750 million notes bearing annual interest at 4.75% due in March 2023. The proceeds were mainly used to repurchase the principal amount of US$714 million of the 2019 Note, and for general corporate purpose including working capital.

The Group has also arranged other short-term credit facilities. At September 30, 2018, the Group's other total available credit facilities amounted to US$12,092 million (March 31, 2018: US$11,232 million), of which US$1,472 million (March 31, 2018: US$1,730 million) was in trade lines, US$796 million (March 31, 2018: US$796 million) in short-term and revolving money market facilities and US$9,824 million (March 31, 2018: US$8,706 million) in forward foreign exchange contracts. At September 30, 2018, the amounts drawn down were US$920 million (March 31, 2018: US$1,090 million) in trade lines, US$9,703 million (March 31, 2018: US$8,645 million) being used for the forward foreign exchange contracts, and US$70 million (March 31, 2018: US$70 million) in short-term bank loans.

At September 30, 2018, the Group's outstanding borrowings represented by short-term bank loans of US$1,854 million (March 31, 2018: US$1,166 million) and notes of US$2,606 million (March 31, 2018: US$2,649 million). When compared with total equity of US$3,953 million (March 31, 2018: US$4,546 million), the Group's gearing ratio was 1.13 (March 31, 2018: 0.84). The net debt position of the Group at September 30, 2018 is US$2,135 million (March 31, 2018: US$1,883 million).

The Group is confident that all the facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2018, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,703 million (March 31, 2018: US$8,645 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations, and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended September 30, 2018 (unaudited)** *US$'000*	**6 months ended September 30, 2018 (unaudited)** *US$'000*	3 months ended September 30, 2017 (unaudited) *US$'000*	6 months ended September 30, 2017 (unaudited) *US$'000*
Revenue	*2*	**13,379,809**	**25,292,534**	11,760,888	21,773,102
Cost of sales		**(11,585,705)**	**(21,866,758)**	(10,148,366)	(18,795,968)
Gross profit		**1,794,104**	**3,425,776**	1,612,522	2,977,134
Other income - net		**-**	**-**	15	15
Selling and distribution expenses		**(654,739)**	**(1,308,943)**	(795,644)	(1,460,671)
Administrative expenses		**(514,955)**	**(1,000,134)**	(387,309)	(847,837)
Research and development expenses		**(312,341)**	**(622,236)**	(310,933)	(602,498)
Other operating (expenses)/income - net		**(22,522)**	**(24,543)**	(30,968)	15,427
Operating profit	*3*	**289,547**	**469,920**	87,683	81,570
Finance income	*4(a)*	**6,176**	**11,474**	8,471	17,659
Finance costs	*4(b)*	**(81,732)**	**(153,580)**	(59,530)	(131,574)
Share of losses of associates and joint ventures		**(694)**	**(1,721)**	(1,277)	(1,570)
Profit/(loss) before taxation		**213,297**	**326,093**	35,347	(33,915)
Taxation	*5*	**(39,815)**	**(67,291)**	117,827	133,224
Profit for the period		**173,482**	**258,802**	153,174	99,309
Profit/(loss) attributable to:					
Equity holders of the Company		**168,403**	**245,447**	139,042	66,752
Perpetual securities holders		**13,440**	**26,880**	13,553	26,800
Other non-controlling interests		**(8,361)**	**(13,525)**	579	5,757
		173,482	**258,802**	153,174	99,309
Earnings per share attributable to equity holders of the Company					
Basic	*6(a)*	**US 1.41 cents**	**US 2.06 cents**	US 1.26 cents	US 0.61 cents
Diluted	*6(b)*	**US 1.40 cents**	**US 2.06 cents**	US 1.26 cents	US 0.61 cents
Dividend	*7*		**92,071**		85,434

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2018 (unaudited) ***US$'000***	**6 months ended September 30, 2018 (unaudited)** ***US$'000***	3 months ended September 30, 2017 (unaudited) *US$'000*	6 months ended September 30, 2017 (unaudited) *US$'000*
Profit for the period	**173,482**	**258,802**	153,174	99,309
Other comprehensive income/(loss):				
Items that have been reclassified or may be subsequently reclassified to profit or loss				
Fair value change on available-for-sale financial assets, net of taxes	**-**	**-**	2,787	2,599
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**1,504**	**(3,784)**	-	-
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value gain/(loss), net of taxes	**32,911**	**224,158**	(73,811)	(171,531)
- Reclassified to consolidated income statement	**(78,085)**	**(171,455)**	116,938	164,906
Currency translation differences	**(178,881)**	**(550,973)**	92,216	111,990
Other comprehensive (loss)/income for the period	**(222,551)**	**(502,054)**	138,130	107,964
Total comprehensive (loss)/income for the period	**(49,069)**	**(243,252)**	291,304	207,273
Total comprehensive (loss)/income attributable to:				
Equity holders of the Company	**(54,148)**	**(256,607)**	277,172	174,716
Perpetual securities holders	**13,440**	**26,880**	13,553	26,800
Other non-controlling interests	**(8,361)**	**(13,525)**	579	5,757
	(49,069)	**(243,252)**	291,304	207,273

CONSOLIDATED BALANCE SHEET

	Note	**September 30, 2018 (unaudited) *US$'000***	March 31, 2018 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,232,127**	1,304,751
Prepaid lease payments		**458,781**	507,628
Construction-in-progress		**282,542**	382,845
Intangible assets		**8,286,321**	8,514,504
Interests in associates and joint ventures		**52,066**	35,666
Deferred income tax assets		**1,674,742**	1,530,623
Available-for-sale financial assets		**-**	373,077
Financial assets at fair value through profit or loss		**373,778**	-
Financial assets at fair value through other comprehensive income		**80,796**	-
Other non-current assets		**118,744**	181,759
		12,559,897	12,830,853
Current assets			
Inventories		**4,280,931**	3,791,691
Trade receivables	*8(a)*	**6,097,261**	4,972,722
Notes receivable		**35,258**	11,154
Derivative financial assets		**97,164**	24,890
Deposits, prepayments and other receivables	*9*	**5,298,712**	4,703,335
Income tax recoverable		**193,296**	227,203
Bank deposits		**112,303**	84,306
Cash and cash equivalents		**2,212,532**	1,848,017
		18,327,457	15,663,318
Total assets		**30,887,354**	28,494,171

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**September 30, 2018 (unaudited)** *US$'000*	March 31, 2018 (audited) *US$'000*
Share capital	*13*	**3,185,923**	3,185,923
Reserves		**(164,625)**	332,697
Equity attributable to owners of the Company		**3,021,298**	3,518,620
Perpetual securities		**993,670**	993,670
Other non-controlling interests		**381,001**	246,598
Put option written on non-controlling interests	*10(a)(ii), 11(b)*	**(442,657)**	(212,900)
Total equity		**3,953,312**	4,545,988
Non-current liabilities			
Borrowings	*12*	**1,820,129**	2,648,725
Warranty provision	*10(b)*	**265,339**	278,908
Deferred revenue		**652,201**	583,405
Retirement benefit obligations		**419,140**	413,482
Deferred income tax liabilities		**328,520**	230,609
Other non-current liabilities	*11*	**856,733**	333,332
		4,342,062	4,488,461
Current liabilities			
Trade payables	*8(b)*	**7,281,937**	6,450,792
Notes payable		**619,883**	801,974
Derivative financial liabilities		**56,011**	62,694
Other payables and accruals	*10(a)*	**10,279,652**	9,217,764
Provisions	*10(b)*	**774,416**	858,475
Deferred revenue		**715,268**	732,552
Income tax payable		**225,043**	168,779
Borrowings	*12*	**2,639,770**	1,166,692
		22,591,980	19,459,722
Total liabilities		**26,934,042**	23,948,183
Total equity and liabilities		**30,887,354**	28,494,171

CONSOLIDATED CASH FLOW STATEMENT

	Note	**6 months ended September 30, 2018 (unaudited)** *US$'000*	6 months ended September 30, 2017 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*15*	**659,597**	92,153
Interest paid		**(152,167)**	(116,911)
Tax paid		**(104,354)**	(189,013)
Net cash generated from/(used in) operating activities		**403,076**	(213,771)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(72,116)**	(101,307)
Purchase of prepaid lease payments		**-**	(10,908)
Sale of property, plant and equipment		**90,523**	5,335
Interest acquired in an associate		**-**	(2,205)
Acquisition of subsidiaries, net of cash acquired	*16*	**(107,002)**	-
Net proceeds from disposal of a joint venture		**-**	160,564
Payment for construction-in-progress		**(119,769)**	(155,826)
Payment for intangible assets		**(83,730)**	(73,124)
Purchase of available-for-sale financial assets		**-**	(69,355)
Purchase of financial assets at fair value through profit or loss		**(24,919)**	-
Purchase of financial assets at fair value through other comprehensive income		**(1,744)**	-
Net proceeds from sale of financial assets at fair value through profit or loss		**33,996**	-
Net proceeds from disposal of an available-for-sale financial asset		**-**	165
Repayment of deferred consideration		**-**	(686,301)
(Increase)/decrease in bank deposits		**(27,997)**	78,505
Dividends received		**163**	-
Interest received		**11,474**	17,659
Net cash used in investing activities		**(301,121)**	(836,798)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		**32,485**	1,003
Contribution to employee share trusts		**(18,823)**	(26,154)
Issue of perpetual securities		**-**	149,625
Dividends paid		**(312,980)**	(291,673)
Distribution to perpetual securities holders		**(26,880)**	(26,432)
Proceeds from borrowings		**3,390,000**	3,364,540
Repayments of borrowings		**(2,690,000)**	(3,763,166)
Net cash generated from/(used in) financing activities		**373,802**	(592,257)
Increase/(decrease) in cash and cash equivalents		**475,757**	(1,642,826)
Effect of foreign exchange rate changes		**(111,242)**	32,061
Cash and cash equivalents at the beginning of the period		**1,848,017**	2,754,599
Cash and cash equivalents at the end of the period		**2,212,532**	1,143,834

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital (*unaudited*) *US$'000*	Investment revaluation reserve (*unaudited*) *US$'000*	Employee share trusts (*unaudited*) *US$'000*	Share-based compensation reserve (*unaudited*) *US$'000*	Hedging reserve (*unaudited*) *US$'000*	Exchange reserve (*unaudited*) *US$'000*	Other reserve (*unaudited*) *US$'000*	Retained earnings (*unaudited*) *US$'000*	Perpetual securities (*unaudited*) *US$'000*	Other non-controlling interests (*unaudited*) *US$'000*	Put option written on non-controlling interests (*unaudited*) *US$'000*	Total (*unaudited*) *US$'000*
At April 1, 2018	**3,185,923**	**(2,741)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,088,647**	**993,670**	**246,598**	**(212,900)**	**4,545,988**
Change in accounting policy	–	**(17,376)**	–	–	–	–	–	**5,746**	–	–	–	**(11,630)**
Restated total equity	**3,185,923**	**(20,117)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,094,393**	**993,670**	**246,598**	**(212,900)**	**4,534,358**
Profit/(loss) for the period	–	–	–	–	–	–	–	**245,447**	**26,880**	**(13,525)**	–	**258,802**
Other comprehensive (loss)/income	–	**(3,784)**	–	–	**52,703**	**(550,973)**	–	–	–	–	–	**(502,054)**
Total comprehensive (loss)/income for the period	–	**(3,784)**	–	–	**52,703**	**(550,973)**	–	**245,447**	**26,880**	**(13,525)**	–	**(243,252)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	**115,443**	–	**115,443**
Vesting of shares under long-term incentive program	–	–	**86,321**	**(95,142)**	–	–	–	–	–	–	–	**(8,821)**
Share-based compensation	–	–	–	**99,626**	–	–	–	–	–	–	–	**99,626**
Termination of put option written on non-controlling interests	–	–	–	–	–	–	**11,913**	–	–	–	**212,900**	**224,813**
Put option written on non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(442,657)**	**(442,657)**
Contribution to employee share trusts	–	–	**(18,823)**	–	–	–	–	–	–	–	–	**(18,823)**
Dividends paid	–	–	–	–	–	–	–	**(312,980)**	–	–	–	**(312,980)**
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	**32,485**	–	**32,485**
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	**(26,880)**	–	–	**(26,880)**
At September 30, 2018	**3,185,923**	**(23,901)**	**(34,204)**	**236,341**	**35,797**	**(1,488,880)**	**83,362**	**1,026,860**	**993,670**	**381,001**	**(442,657)**	**3,953,312**
At April 1, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
Profit for the period	–	–	–	–	–	–	–	66,752	26,800	5,757	–	99,309
Other comprehensive income/(loss)	–	2,599	–	–	(6,625)	111,990	–	–	–	–	–	107,964
Total comprehensive income/(loss) for the period	–	2,599	–	–	(6,625)	111,990	–	66,752	26,800	5,757	–	207,273
Transfer to statutory reserve	–	–	–	–	–	–	15,097	(15,097)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	60,956	(79,864)	–	–	–	–	–	–	–	(18,908)
Share-based compensation	–	–	–	98,451	–	–	–	–	–	–	–	98,451
Contribution to employee share trusts	–	–	(26,154)	–	–	–	–	–	–	–	–	(26,154)
Dividends paid	–	–	–	–	–	–	–	(291,673)	–	–	–	(291,673)
Issue of perpetual securities	–	–	–	–	–	–	–	–	149,625	–	–	149,625
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	1,003	–	1,003
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	(26,432)	–	–	(26,432)
At September 30, 2017	2,689,882	(366)	(76,426)	142,080	(11,953)	(1,114,628)	77,848	1,453,596	993,670	247,604	(212,900)	4,188,407

Notes

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2018 that is included in the FY2018/19 interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended March 31, 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Basis of preparation

The financial information presented above and notes thereto are extracted from the Group's consolidated financial statements and presented in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board is responsible for the preparation of the Group's consolidated financial statements. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values.

The Group has adopted the following new standards, interpretation and amendments to an existing standard that are mandatory for the year ending March 31, 2019 which the Group considers is appropriate and relevant to its operations:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration
- Amendments to HKFRS 2, Share-based payment

Except for the two new standards, the adoption of the newly effective interpretation and the amendments to an existing standard did not result in substantial changes to the Group's accounting policies or financial results. The following describes the key changes arising from the adoption of the two new standards that impact the consolidated financial statements of the Group.

HKFRS 9, Financial instruments
The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future.

For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at FVPL. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Under HKFRS 9, trade receivables of the Group are to be classified as FVOCI instruments with earlier recognition of loss expected, and the amount of any relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. Gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead will be reclassified below the line from the investments revaluation reserve to retained earnings.

Impact of adoption

The adoption of HKFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The total impact on the Group's retained earnings as at April 1, 2018 is as follows:

	US$'000
Closing retained earnings at March 31, 2018	1,088,647
Reclassify investments from available-for-sale financial assets to financial assets at FVPL	17,376
Bond refinancing	(11,630)
Opening retained earnings at April 1, 2018	1,094,393

(i) Classification and measurement

On April 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(a) Reclassification from available-for-sale financial assets to financial assets at FVPL

Certain investments were reclassified from available-for-sale financial assets to financial assets at FVPL (US$294,601,000 as at April 1, 2018). They do not meet the HKFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of US$17,376,000 were transferred from the investment revaluation reserve to retained earnings on April 1, 2018. During the six months ended September 30, 2018, net fair value gains of US$71,511,000 relating to these investments were recognized in profit or loss.

(b) Equity investments previously classified as available-for-sale financial assets

The Group elected to present in OCI the changes in fair value of certain of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of US$78,476,000 as of April 1, 2018 were reclassified from available-for-sale financial assets to financial assets at FVOCI.

(c) Bond refinancing

Following the adoption of HKFRS 9, the Group could no longer defer the recognition of a loss from the refinancing of a borrowing. Under the Group's previous accounting policies, this loss would have been recognized over the remaining life of the borrowing by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged. A related loss of US$11,630,000 was adjusted to retained earnings on April 1, 2018.

(d) Impairment of financial assets

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group has concluded that there is no material variance between the ECL and the allowance recorded as at April 1, 2018.

HKFRS 15, Revenue from contracts with customers
This standard replaced HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Under HKFRS 15, revenue arising from channel sales of the Group may be subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

The Group has assessed the effects of applying the new standard on the consolidated financial statements and has not identified any significant impact to the Group.

New standards, interpretation and amendments to existing standards not yet effective

The following new standards, interpretation and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2019 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 16, Leases	January 1, 2019
HKFRS 17, Insurance contracts	January 1, 2021
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	To be determined
Amendments to HKAS 19, Employee benefits	January 1, 2019
Amendments to HKAS 28, Investments in associates and joint ventures	January 1, 2019

Among the above, HKFRS 16 is of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

HKFRS 16, Leases
HKFRS 16 requires almost all leases of lessees to be recognized on the balance sheet, as the distinction between operating and finance leases is removed. The accounting for lessors will not significantly change. Under the new standard, the right to use the leased item and the duty to pay rent are recognized as an asset and a financial liability respectively. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for operating leases of the Group. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities

would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on the assessment performed, the Group is in the opinion that the adoption of above new standards, interpretation and amendments to existing standards will not result in a significant effect on its consolidated financial statements.

2 Segment information

The Group has formed the Intelligent Devices Group ("IDG"), combining PC and Smart Device Business Group ("PCSD") and Mobile Business Group ("MBG") together. The new business group structure, namely IDG and Data Center Group ("DCG"), replaces the Group's original segment by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers.

The Group has adopted the new business group structure as the reporting format effective for the year ending March 31, 2019 and the comparative segment information has been presented to reflect the current organizational structure. Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the "LEC"), the chief operating decision-maker, that are used to make strategic decisions.

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes the effects of unrealized gains/(losses) on financial instruments. Certain interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

Supplementary information on segment assets and liabilities presented below is primarily based on the business group of the entities or operations which carry the assets and liabilities, except for entities performing centralized functions for the Group the assets and liabilities of which are not allocated to any segment.

(a) Segment revenue and adjusted pre-tax income/(loss) for reportable segments

	6 months ended September 30, 2018		6 months ended September 30, 2017	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**22,119,735**	**793,992**	19,826,573	326,754
DCG	**3,172,799**	**(123,457)**	1,946,529	(275,335)
Segment total	**25,292,534**	**670,535**	21,773,102	51,419
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(219,575)**		(17,428)
Depreciation and amortization		**(62,972)**		(45,192)
Finance income		**1,285**		3,246
Finance costs		**(60,792)**		(26,376)
Share of losses of associates and joint ventures		**(1,721)**		(1,570)
(Loss)/gain on disposal of property, plant and equipment		**(667)**		1,986
Consolidated profit/(loss) before taxation		**326,093**		(33,915)

(b) Segment assets for reportable segments

	September 30, 2018	March 31, 2018
	US$'000	*US$'000*
IDG	**20,842,389**	18,955,347
DCG	**4,542,347**	4,729,617
Segment assets for reportable segments	**25,384,736**	23,684,964
Unallocated:		
Deferred income tax assets	**1,674,742**	1,530,623
Financial assets at fair value through profit or loss	**373,778**	-
Financial assets at fair value through other comprehensive income	**80,796**	-
Derivative financial assets	**97,164**	24,890
Available-for-sale financial assets	**-**	373,077
Interests in associates and joint ventures	**52,066**	35,666
Unallocated bank deposits and cash and cash equivalents	**2,324,835**	1,932,323
Unallocated deposits, prepayments and other receivables	**278,298**	242,899
Income tax recoverable	**193,296**	227,203
Other unallocated assets	**427,643**	442,526
Total assets per consolidated balance sheet	**30,887,354**	28,494,171

(c) Segment liabilities for reportable segments

	September 30, 2018	March 31, 2018
	US$'000	*US$'000*
IDG	**19,995,962**	17,287,630
DCG	**1,482,307**	1,809,529
Segment liabilities for reportable segments	**21,478,269**	19,097,159
Unallocated:		
Deferred income tax liabilities	**328,520**	230,609
Derivative financial liabilities	**56,011**	62,694
Unallocated borrowings	**4,459,899**	3,815,417
Unallocated other payables and accruals	**348,739**	538,972
Unallocated provisions	**8,634**	1,399
Unallocated other non-current liabilities	**28,927**	33,154
Income tax payable	**225,043**	168,779
Total liabilities per consolidated balance sheet	**26,934,042**	23,948,183

(d) Analysis of revenue by geography

	6 months ended September 30, 2018	6 months ended September 30, 2017
	US$'000	*US$'000*
China	**6,268,642**	5,533,525
AP	**4,726,400**	3,600,549
EMEA	**6,074,567**	5,854,616
AG	**8,222,925**	6,784,412
	25,292,534	21,773,102

(e) Other segment information

	IDG		DCG		Total	
	2018	2017	**2018**	2017	**2018**	2017
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
For the six months ended September 30						
Depreciation and amortization	**228,961**	211,951	**102,790**	97,987	**331,751**	309,938
Finance income	**10,093**	14,413	**96**	-	**10,189**	14,413
Finance costs	**83,871**	98,670	**8,917**	6,528	**92,788**	105,198
Additions to non-current assets (Note)	**484,027**	302,067	**48,488**	39,098	**532,515**	341,165

Note: Other than financial instruments and deferred income tax assets; excluding other non-current assets and including non-current assets acquired through acquisition of subsidiaries (Note 16).

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,111 million (March 31, 2018: US$6,362 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2018

	China	**AP**	**EMEA**	**AG**	***Mature Market***	***Emerging Market***	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill							
- PCSD	**1,031**	**618**	**230**	**318**	**-**	**-**	**2,197**
- MBG	**-**	**-**	**-**	**-**	**672**	**896**	**1,568**
- DCG	**476**	**158**	**90**	**352**	**-**	**-**	**1,076**
Trademarks and trade names							
- PCSD	**209**	**59**	**105**	**67**	**-**	**-**	**440**
- MBG	**-**	**-**	**-**	**-**	**121**	**339**	**460**
- DCG	**162**	**54**	**31**	**123**	**-**	**-**	**370**

At March 31, 2018

	China	**AP**	**EMEA**	**AG**	***Mature Market***	***Emerging Market***	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill							
- PCSD	1,117	574	247	334	-	-	2,272
- MBG	-	-	-	-	717	959	1,676
- DCG	503	161	123	353	-	-	1,140
Trademarks and trade names							
- PCSD	209	59	109	67	-	-	444
- MBG	-	-	-	-	121	339	460
- DCG	162	54	31	123	-	-	370

Prior to the announcement of a new organizational structure in May 2018 by combining PCSD and MBG under IDG, MBG has adopted new reporting business units based upon a market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of assets".

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at September 30, 2018 (March 31, 2018: Nil).

3 Operating profit

Operating profit is stated after charging/(crediting) the following:

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**78,496**	**144,256**	62,521	124,905
Amortization of intangible assets	**128,275**	**250,467**	117,744	230,225
Employee benefit costs, including	**945,813**	**1,946,453**	870,101	1,726,447
- long-term incentive awards	***52,811***	***99,626***	*51,099*	*98,340*
Rental expenses under operating leases	**35,798**	**71,774**	35,898	74,500
Loss on disposal of property, plant and equipment	**1,523**	**2,456**	472	4,560
Fair value gain on financial assets at fair value through profit or loss	**(42,448)**	**(71,511)**	-	-
Gain on disposal of financial assets at fair value through profit or loss	**(766)**	**(32,896)**	-	-
Dilution gain on interest in an associate	**(18,121)**	**(18,121)**	-	-

4 Finance income and costs

(a) Finance income

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Interest on bank deposits	**5,666**	**10,752**	7,733	15,688
Interest on money market funds	**510**	**722**	738	1,971
	6,176	**11,474**	8,471	17,659

(b) Finance costs

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Interest on bank loans and overdrafts	**23,148**	**46,884**	10,668	20,613
Interest on notes	**29,658**	**59,797**	31,869	62,690
Interest on promissory note	**-**	**-**	-	11,589
Factoring costs	**26,961**	**42,627**	15,591	33,692
Commitment fee	**-**	**360**	83	404
Interest on contingent/deferred considerations and put option liabilities	**1,357**	**3,025**	556	1,110
Others	**608**	**887**	763	1,476
	81,732	**153,580**	59,530	131,574

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Current tax				
Hong Kong profits tax	**2,040**	**8,766**	1,378	8,488
Taxation outside Hong Kong	**99,586**	**175,776**	87,267	152,227
Deferred tax	**(61,811)**	**(117,251)**	(206,472)	(293,939)
	39,815	**67,291**	(117,827)	(133,224)

Hong Kong profits tax has been provided for at the rate of 16.5% (2017/18: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

6 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
Weighted average number of ordinary shares in issue	**12,014,791,614**	**12,014,791,614**	11,108,654,724	11,108,654,724
Adjustment for shares held by employee share trusts	**(50,086,866)**	**(122,719,181)**	(91,162,587)	(125,135,304)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,964,704,748**	**11,892,072,433**	11,017,492,137	10,983,519,420
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**168,403**	**245,447**	139,042	66,752

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. They were dilutive for the three and six months ended September 30, 2018 and 2017.

	3 months ended September 30, 2018	**6 months ended September 30, 2018**	3 months ended September 30, 2017	6 months ended September 30, 2017
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,964,704,748**	**11,892,072,433**	11,017,492,137	10,983,519,420
Adjustment for long-term incentive awards	**43,153,981**	**17,668,381**	32,228	357,590
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**12,007,858,729**	**11,909,740,814**	11,017,524,365	10,983,877,010
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**168,403**	**245,447**	139,042	66,752

For the adjustment for dilutive potential ordinary shares of long-term incentive awards, a calculation is performed to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

For the bonus warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the bonus warrants.

There is no adjustment to profit attributable to equity holders of the Company used for the calculation of diluted earnings per share.

7 Dividend

	6 months ended September 30, 2018 *US$'000*	6 months ended September 30, 2017 *US$'000*
Interim dividend, declared after period end – HK 6.0 cents (2017/18: HK6.0 cents) per ordinary share	**92,071**	85,434

8 Ageing analysis

(a) Customers are generally granted credit term ranging from 0 to 120 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	September 30, 2018 *US$'000*	March 31, 2018 *US$'000*
0 – 30 days	**3,685,720**	3,046,240
31 – 60 days	**1,570,565**	1,169,286
61 – 90 days	**373,574**	320,183
Over 90 days	**565,602**	545,629
	6,195,461	5,081,338
Less: provision for impairment	**(98,200)**	(108,616)
Trade receivables – net	**6,097,261**	4,972,722

(b) Ageing analysis of trade payables of the Group at the balance sheet date, based on invoice date, is as follows:

	September 30, 2018 *US$'000*	March 31, 2018 *US$'000*
0 – 30 days	**4,377,713**	3,694,507
31 – 60 days	**1,907,982**	1,793,380
61 – 90 days	**823,695**	727,029
Over 90 days	**172,547**	235,876
	7,281,937	6,450,792

9 Deposits, prepayments and other receivables

Details of deposits, prepayments and other receivables are as follows:

	September 30, 2018	March 31, 2018
	US$'000	*US$'000*
Deposits	**18,376**	15,818
Other receivables	**4,184,083**	3,346,475
Prepayments	**1,096,253**	1,341,042
	5,298,712	4,703,335

Majority of other receivables of the Group are amounts due from subcontractors for parts components sold in the ordinary course of business.

10 Provisions, other payables and accruals

(a) Details of other payables and accruals are as follows:

	September 30, 2018	March 31, 2018
	US$'000	*US$'000*
Accruals	**1,754,733**	1,865,507
Allowance for billing adjustments (i)	**1,690,363**	1,634,287
Written put option liability (ii)	**-**	224,813
Other payables (iii)	**6,834,556**	5,493,157
	10,279,652	9,217,764

Notes:

(i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.

(ii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively.

During the period, the Company entered into a put option termination agreement with Compal, while Compal signed a share purchase agreement with Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd. ("ZJSB") to dispose the 49% equity interest in JV Co to ZJSB. Please refer to note 11(b) for details of the put option granted.

The financial liability that may become payable under the put option is initially recognized at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest.

The put option liability shall be re-measured as a result of the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

(iii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

(iv) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

	Warranty *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2018				
At the beginning of the year	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	24,577	638	3,794	29,009
Provisions made	895,939	9,662	100,775	1,006,376
Amounts utilized	(901,204)	(9,771)	(140,168)	(1,051,143)
	1,081,218	8,919	54,053	1,144,190
Long-term portion classified as non-current liabilities	(278,908)	(6,807)	-	(285,715)
At the end of the year	802,310	2,112	54,053	858,475
Period ended September 30, 2018				
At the beginning of the period	**1,081,218**	**8,919**	**54,053**	**1,144,190**
Exchange adjustment	**(39,348)**	**(1,093)**	**(2,107)**	**(42,548)**
Provisions made	**411,286**	**8,933**	**-**	**420,219**
Amounts utilized	**(448,148)**	**(5,030)**	**(19,192)**	**(472,370)**
Acquisition of subsidiaries	**-**	**24,510**	**-**	**24,510**
	1,005,008	**36,239**	**32,754**	**1,074,001**
Long-term portion classified as non-current liabilities	**(265,339)**	**(34,246)**	**-**	**(299,585)**
At the end of the period	**739,669**	**1,993**	**32,754**	**774,416**

The Group records its warranty liability at the time of sales based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty accrual is reviewed quarterly to verify it properly reflects the outstanding obligation over the warranty period. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with them.

The Group records its environmental restoration provision at the time of sales based on estimated costs of environmentally-sound disposal of waste electrical and electronic equipment upon return from end-customers and with reference to the historical or projected future return rate. The environmental restoration provision is reviewed at least annually to assess its adequacy to meet the Group's obligation.

Restructuring costs provision mainly comprises lease termination obligations and employee termination payments, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	September 30, 2018	March 31, 2018
	US$'000	*US$'000*
Contingent consideration (a)	**65,854**	-
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**443,962**	-
Environmental restoration (Note 10(b))	**34,246**	6,807
Government incentives and grants received in advance (c)	**50,971**	58,988
Deferred rent liabilities	**89,607**	94,377
Others	**147,021**	148,088
	856,733	333,332

(a) Pursuant to the completion of a business combination, the Group is required to pay in cash to the then respective sellers contingent consideration with reference to certain performance indicators as written in the respective agreements with the sellers; and deferred consideration. Accordingly, non-current liability in respect of the present value of contingent and deferred considerations have been recognized. The contingent considerations are subsequently re-measured at their fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently measured at amortized cost.

As at September 30, 2018, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective sellers under such arrangements are as follows:

Joint venture with NEC Corporation	US$25 million
Fujitsu Limited ("Fujitsu")	JPY2.55 billion to JPY12.75 billion

(b) Pursuant to the joint venture agreement entered into between the Company and Fujitsu, the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and Development Bank of Japan ("DBJ"), or Fujitsu and DBJ to sell to the Company, 49% interest in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together "FCCL"). Both options will be exercisable following the fifth anniversary of the date of completion. The exercise price for the call and put options will be determined based on the fair value of the 49% interest as of the day of exercising the option.

During the period, the Company through Lenovo (Beijing) Limited, a wholly-owned subsidiary, further entered into an option agreement with Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% equity interest in ZJSB, to which the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia and Yuan Jia to sell to the Group the 99.31% Yuan Jia's interests in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options would be determined in accordance with the joint venture agreement, and up to a maximum of RMB 2,300 million (approximately US$334 million).

The financial liability that may become payable under the put option is initially recognized at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest.

The put option liability shall be re-measured as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

Government incentives and grants received in advance by certain group companies included in other non-current liabilities are mainly related to research and development projects and construction of property, plant and equipment. These group companies are obliged to fulfill certain conditions under the terms of the government incentives and grants. The government incentive and grants are credited to the income statement upon fulfillment of those conditions and on a straight line basis over the expected life of the related assets respectively.

12 Borrowings

	September 30, 2018 *US$'000*	March 31, 2018 *US$'000*
Current liabilities		
Short-term loans (i)	**1,854,274**	1,166,692
Note (ii)	**785,496**	-
	2,639,770	1,166,692
Non-current liabilities		
Notes (ii)	**1,820,129**	2,648,725
	4,459,899	3,815,417

(i) The majority of the short-term bank loans are denominated in United States dollar. As at September 30, 2018, the Group has total revolving and short-term loan facilities of US$2,596 million (March 31, 2018: US$1,896 million) which has been utilized to the extent of US$1,870 million (March 31, 2018: US$1,170 million).

(ii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	September 30, 2018 *US$'000*	March 31, 2018 *US$'000*
May 8, 2014	US$786 million	5 years	4.7%	May 2019	**785,496**	774,341
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**579,672**	635,015
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,986**	496,590
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**743,471**	742,779
					2,605,625	2,648,725

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2018 and March 31, 2018 are as follows:

	September 30, 2018 *US$'000*	March 31, 2018 *US$'000*
Within 1 year	**2,639,770**	1,166,692
Over 1 to 3 years	**579,672**	1,409,356
Over 3 to 5 years	**1,240,457**	1,239,369
	4,459,899	3,815,417

13 Share capital

	September 30, 2018		March 31, 2018	
	Number of Shares	*US$'000*	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882
Issue of ordinary shares	-	-	906,136,890	496,041
At the end of the period/year	**12,014,791,614**	**3,185,923**	12,014,791,614	3,185,923

On November 17, 2017, the Company has issued 906,136,890 shares at a price of HK$4.31 per share through a subscription agreement entered into by the Company and Union Star Limited.

14 Perpetual securities

In March 2017, the Group issued a total of US$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net proceed amounted to approximately US$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and the Company, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

In April 2017, the Group issued an additional US$150 million perpetual securities under the same terms, which are fungible with and form a single series with the aforementioned US$850 million perpetual securities.

15 Reconciliation of profit/(loss) before taxation to net cash generated from operations

	6 months ended September 30, 2018 *US$'000*	6 months ended September 30, 2017 *US$'000*
Profit/(loss) before taxation	**326,093**	(33,915)
Share of losses of associates and joint ventures	**1,721**	1,570
Finance income	**(11,474)**	(17,659)
Finance costs	**153,580**	131,574
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**144,256**	124,905
Amortization of intangible assets	**250,467**	230,225
Share-based compensation	**99,626**	98,340
Impairment of property, plant and equipment	**-**	4,608
Loss on disposal of property, plant and equipment	**2,456**	4,560
Loss on disposal of intangible assets	**-**	33
Gain on disposal of financial assets at fair value through profit or loss	**(32,896)**	-
Net gain on disposal of available-for-sale financial assets	**-**	(15)
Dilution gain on interest in an associate	**(18,121)**	-
Fair value change on bonus warrants	**6,683**	-
Fair value change on financial instruments	**(32,937)**	(2,532)
Fair value change on financial assets at fair value through profit or loss	**(71,511)**	-
Dividend income	**(163)**	-
Increase in inventories	**(349,565)**	(805,955)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,208,265)**	(2,218,962)
Increase in trade payables, notes payable, provisions, other payables and accruals	**1,323,480**	2,718,388
Effect of foreign exchange rate changes	**76,167**	(143,012)
Net cash generated from operations	**659,597**	92,153

Reconciliation of financing liabilities

This section sets out an analysis of financing liabilities and the movements in financing liabilities for the period presented.

Financing liabilities	**September 30, 2018** *US$'000*	March 31, 2018 *US$'000*
Short-term loans - current	**1,854,274**	1,166,692
Note - current	**785,496**	-
Notes - non-current	**1,820,129**	2,648,725
Financing liabilities	**4,459,899**	3,815,417
Short-term loans – variable interest rates	**1,854,274**	1,166,692
Notes – fixed interest rates	**2,605,625**	2,648,725
Financing liabilities	**4,459,899**	3,815,417

	Short-term loans current US$'000	Long-term loans non-current US$'000	Note current US$'000	Notes non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	-	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	-	(6,724,406)
Issue of notes	-	-	-	749,119	749,119
Repayment of notes	-	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	-	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	-	2,648,725	3,815,417
Financing liabilities as at April 1, 2018	**1,166,692**	**-**	**-**	**2,648,725**	**3,815,417**
Proceeds from borrowings	**3,390,000**	**-**	**-**	**-**	**3,390,000**
Repayments of borrowings	**(2,690,000)**	**-**	**-**	**-**	**(2,690,000)**
Transfer	**-**	**-**	**774,341**	**(774,341)**	**-**
Foreign exchange adjustments	**-**	**-**	**-**	**(55,713)**	**(55,713)**
Other non-cash movements	**(12,418)**	**-**	**11,155**	**1,458**	**195**
Financing liabilities as at September 30, 2018	**1,854,274**	**-**	**785,496**	**1,820,129**	**4,459,899**

16 Business combination

On May 2, 2018, the Group acquired 51% of FCCL. FCCL is principally engaged in manufacturing and distribution of PC products.

Immediately following completion, the Company, Fujitsu Corporation ("Fujitsu"), and Development Bank of Japan ("DBJ") respectively owns 51%, 44%, and 5% of the interest in FCCL.

The acquisition provides the Group with efficiencies and economies of scale to benefit the development, manufacture and distribution of Fujitsu-branded personal computer products, while enabling improved global penetration of the Fujitsu personal computer brand for the benefit of both consumer and enterprise market customers.

The estimated total consideration for the business combination activity completed during the quarter is approximately US$197 million, including initial and contingent consideration.

Set forth below is the preliminary calculation of goodwill:

(a) At completion date, cash payment comprising cash consideration of JPY17,988,210,000 (US$163,812,130) net of a downward adjustment of JPY3,722,999,906 (US$33,904,016) calculated based on the actual working capital amount and the actual net debt as at the completion date was paid to Fujitsu Limited.

(b) The contingent consideration are to be payable in cash after March 31, 2020. The present value of contingent consideration is included in other non-current liabilities in the balance sheet.

	US$'000
Purchase consideration:	
- Cash paid (a)	**129,908**
- Present value of contingent consideration (b)	**67,492**
Total purchase consideration	**197,400**
Less: Fair value of net assets acquired	**(120,145)**
Goodwill	**77,255**

The major components of assets and liabilities arising from the business combination activity are as follows:

	US$'000
Cash and cash equivalents	**22,906**
Property, plant and equipment	**34,345**
Deferred tax assets less liabilities	**(20,059)**
Intangible assets	**152,868**
Other non-current assets	**8,674**
Net working capital except cash and cash equivalents	**76,129**
Non-current liabilities	**(39,285)**
Fair value of net assets of FCCL	**235,578**
Less: share of other non-controlling interest	**(115,433)**
Fair value of net assets attributable to 51% interest acquired	**120,145**

Intangible assets arising from the business combination activity mainly represent customer relationships. The Group has engaged an external valuer to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 (Revised) "Business Combination".

At September 30, 2018, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activity. The relevant fair values of net assets stated above are on a provisional basis.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On April 3, 2018, the Company announced that it has repurchased US$1,500,000,000 4.700% notes due 2019 of the Company (the "2019 Notes"), which are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), in the aggregate principal amount of US$713,756,000 (the "Repurchased Notes") at a total price of US$727,138,925 with the net proceeds from the issuance of new notes pursuant to a tender offer. After the cancellation of the Repurchased Notes, as at September 30, 2018, US$786,244,000 in aggregate principal amount of the 2019 Notes remained outstanding.

Saved as disclosed above, during the six months ended September 30, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 37,751,795 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2017/18 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with the responsibility to assist the Board in providing an independent review of the financial statements, risk management and internal control systems. It acts in accordance with its terms of reference which clearly deal with its membership, authority, duties and frequency of meetings. Currently, the Audit Committee is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. Nicholas C. Allen and other three independent non-executive directors, Ms. Ma Xuezheng, Mr. William Tudor Brown and Mr. Gordon Robert Halyburton Orr.

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2018. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2018, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

The Board has recently reviewed the organization human resources planning of the Company and is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang Yuanqing ("Mr. Yang") to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

The Board also appointed Mr. William O. Grabe as the lead independent director (the "Lead Independent Director") with broad authority and responsibility. Among other responsibilities, the Lead Independent Director chairs the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; and (ii) assessment of the performance of Chairman and/or CEO. The Lead Independent Director also calls and chairs meeting(s) with all independent non-executive directors without management and executive director present at least once a

year on such matters as are deemed appropriate. Accordingly, the Board believes that the current Board structure with combined roles of Chairman and CEO, the appointment of Lead Independent Director and a vast majority of independent non-executive directors provide an effective balance on power and authorizations between the Board and the management of the Company.

By Order of the Board
Yang Yuanqing
Chairman and
Chief Executive Officer

November 8, 2018

As at the date of this announcement, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Zhu Linan and Mr. Zhao John Huan; and the independent non-executive directors are Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr and Professor Shoucheng Zhang.